

**SPECIAL COMMITTEE ON ENERGY CONTRACTS
AND RELATED PROJECTS**

September 5, 2006

5:00 PM

Chairman Thibault called the meeting to order.

The Clerk called the roll.

Present: Aldermen Thibault, Lopez, Forest, Garrity, Long

Messrs.: R. Sherman

Chairman Thibault addressed Item 3 of the agenda:

Proposal to enroll City as a wholesale electric market participant submitted by Freedom Energy Partners, LLC.

Chairman Thibault stated Randy if you could enlighten this Committee. Many of them were not here when this was first proposed so if you could go back a little bit in time and bring them up-to-date I would appreciate it.

Randy Sherman, Deputy Finance Officer, stated I will give you the Reader's Digest version and it really does go back actually more than 10 years. It goes back to 1995. A gentleman by the name of Jim Rodier who at one point worked for the PUC and at another time in his life worked for Public Service actually filed with the state to open up the electricity, the energy markets, to competition. Until that point utilities had a monopoly on certain areas within the state and it was a national thing. Through a number of hearings, which the City did participate in, the electric market and the natural gas market did open up for competition. The problem was that competition never followed and we saw that in every state that was trying to do it, whether it be Massachusetts, California, Pennsylvania...they all tried to open up for competition and it really never materialized. The City did okay for a couple of years in the natural gas market. We were saving some significant dollars but the number of times that we actually tried to go out to bid for energy, for electricity, we just never got any bids. We did spend substantial dollars at the City level to participate in all of the hearings and it truly went on for four or five years with legal counsel and consultants and eventually the state did take action. The state finally did enact legislation to open up the market but as I said it really didn't materialize. So we have kind of over the past few years only been doing energy conservation measures and I believe actually in the second item

that you have for new business there is actually a schedule of the energy conservation projects that the City has undertaken. At this point Freedom Energy Partners has come forward. I know the letter is signed by a gentleman by the name of August but Gus Fromuth made a proposal to the City that the City actually declare itself and join the NE Pool, which is the New England Power Pool and purchase its electricity on the wholesale market. So right now you are buying at retail through Public Service. What they are saying is they would in essence bypass Public Service for the energy component. Not everything because Public Service obviously still owns the lines and they would take care of your meters and do the billing and those types of things but Freedom Energy would actually look at the City's usage and they would go out on the wholesale market and buy the power that the City needs. Now this was tried early on by a number of people and the problem was that the legislation pretty much said if you ever drop off PSNH as a customer you can't come back. So you had a one-time opportunity to get off, go for the cheaper power and you couldn't go back. That has since been changed so the City could drop off of PSNH, go wholesale and if the market swings the other way you would in turn go back to PSNH. Now the only thing I will say is I cannot tell you whether this is a good deal or not for the City. I have just been too far removed from the energy market for too many years to know whether this works or not. This was also proposed to the City prior to PSNH announcing that they had a 15% rate decrease come July 1. So while it may have worked in prior years, the last couple of years you talk to the folks at St. A's and the like and they say yes they did save money I can't tell you whether it is going to work going forward because part of PSNH's rates included stranded costs for things like Seabrook. Those stranded costs have now gone away, which lowers PSNH's rates. So the difference between their retail rates the wholesale rates, I am just not sure there is that much of a spread there that it is worth the City to bounce back and forth. I really don't have a recommendation on this one. The second question would be if Freedom Energy would like to do this are there other parties out there that would be willing to do this for the City and would we, in essence, have to issue an RFP.

Chairman Thibault asked we would have to go out for competitive bids right.

Mr. Sherman answered we probably would have to go out for a competitive bid. Now if it is the Committee's will we could draft up an RFP and issue it and see if anybody else is interested. I could try to find somebody. I know and I can't think of the gentleman's name but I know there was somebody in town here, one of the attorneys in town was representing Keyspan at all of the hearings and I can certainly try for a few bucks to run something like this by him. Again, I can't remember the gentleman's name. But again I don't feel comfortable...the person that we had in the Finance Department that was our energy guru hasn't worked for the City for two years. I just don't have anybody to rely on anymore to make those decisions.

Chairman Thibault asked do you think it would be beneficial for this Committee to invite someone from PSNH to give us some background before we make a final decision.

Mr. Sherman answered we could. We could probably get somebody like Steve Hall to come in and talk about this. Maybe almost three years ago when we originally talked to Gus and Jim Rodier about doing this we actually met at PSNH's office with Steve Hall and he was all for it. Anything that can save...because all PSNH truly does...clearly they do generate some of their own power but they buy a lot of power through the wholesale anyway so they are really more of a pass through. I am sure they tack on and get a little fee on top of it but they really do pass through. They are not necessarily opposed to the City doing something like this as long as again everything is kosher and there is enough power in the grid to take care of all of the customers.

Chairman Thibault responded Randy I am sure you know that from the beginning I was for this because there was a possible savings that was going to come out of that but as I was looking back as to what we have done here I haven't seen any of that. It is disenchanting to see it, however, I would hate to say let's stop it and not even look into it. That is why I am asking do you think inviting someone from PSNH would be enlightening?

Mr. Sherman replied that might be a good next step before we issue an RFP. Get them in here because if they come in and say listen you may find somebody and you may get a little bit of savings but the spread just isn't worth the effort...you know again I think someone like Steve Hall from PSNH would be a good resource. I can gladly talk to him.

Alderman Forest stated I was going to make a motion that we table this but I am looking to my right here and see that some Aldermen have concerns so I will make a motion that we table it with the amendment that we give staff some time to research and get it back to this Committee with some options.

Chairman Thibault replied if you table it we can't have any discussion on it.

Alderman Forest stated only if someone seconds it. I will just hold off until there is a second and let the Aldermen ask their questions.

Alderman Long asked have we ever approached PSNH with a negotiated rate.

Mr. Sherman answered we have tried to get a municipal rate and the PUC has no interest in going there.

Alderman Long asked so we need to be approved by the PUC prior to negotiating our own rate.

Mr. Sherman answered right. The only time that I believe we actually were able to cut a deal through the PUC was when we were trying to retain JacPac. We actually got them a special rate but the municipal...there were no deals.

Alderman Long stated okay let's take the PUC out of the picture right now. Would PSNH do you think negotiate some kind of municipal rate if the PUC gave the authorization?

Mr. Sherman responded I think they would be willing to do the same type of deal that Freedom is. I am just not sure they are allowed to. I don't know if that authority with the whole split of the energy companies and everything...I don't know if they have that authority but yes they may be willing to try to do something like that.

Alderman Long stated it would seem to me that if legislation was changed to allow this that they seem more...it seems like the legislation was protective of PSNH and now it has gone away putting PSNH in the market and saying be competitive. So why the PUC would be opposed to this I don't know but the New England Power Pool, do we know what the rates are now? Do we have any idea what people are getting?

Mr. Sherman replied I don't but the analysis that they had done at that point they were saving 10% or 15% off of the retail rate. Again, that is compared to PSNH, which included the stranded costs. Now that those stranded costs have gone away it may be more beneficial to just stay with PSNH.

Alderman Long asked are St. A's still participants.

Mr. Sherman answered as far as I know yes.

Alderman Long asked are there any other municipalities that are still participants.

Mr. Sherman answered not that I am aware of.

Alderman Long stated I would recommend if we are going to have PSNH come in that a representative from New England Power Pool come in to see what is there to compare to.

Mr. Sherman responded yes. I can get those rates.

Chairman Thibault stated so if, in fact, Randy we wanted to have a couple of these companies come in and give us their ideas as to what they can do we could also do that. I am not sure that is where we are going yet.

Alderman Lopez stated I think we are, for lack of another word, going towards the wind so to speak here. Getting into these other deals got us in trouble before. We deal with PSNH, we want to go to the commission and back to PSNH that is fine but to get into another wholesale deal it is going to end up costing the City money plus not having any facts whatsoever. I don't want to spend any money on an RFP going to anybody. If this company, Freedom Energy, really wanted to do something they would have provided us with something. I have nothing in front of me. Therefore, I move to receive and file.

Alderman Garrity duly seconded the motion to receive and file. Chairman Thibault called for a vote. There being none opposed the motion carried.

Communication from Mayor Guinta regarding a plan to terminate the Aggregation Program.

Alderman Forest stated since I was elected four years ago or four and a quarter years ago or whatever it is, I have always been opposed to the Aggregation Program. I know the Mayor sent us a proposal and I wholeheartedly agree with this proposal and I am probably going to vote in favor of it. Seeing that there is a member of the Mayor's staff here, we have objected to this in the past about getting information at the last minute. If we could get information like this earlier than the night of the meeting but again I am going to vote in favor of this proposal.

Alderman Forest moved to accept the Mayor's proposal to eliminate the Aggregation Program. Alderman Garrity duly seconded the motion.

Alderman Lopez asked the general fund 2006 contingency account, how much money are you talking about.

Mr. Sherman answered the general fund share is on the second page. It is \$280,948.98 and there is just over \$285,000 left in contingency.

Alderman Lopez asked and we are going to take contingency monies to take care of this with the assumption that Item 3, you are going to negotiate with the School Department but we don't know whether the School Department is going to put in their fair share.

Mr. Sherman answered we have, well I won't say myself but Kevin Clougherty had talked to the Superintendent and Bill Sanders over the summer about this and I understand that is not the School Board but they both said at that time that if everybody else agrees to pay as long as they had time to pay it they will pay their share. Now again to the extent that those two gentlemen can commit the School District and I think that is what the Mayor is saying is we have indication that they will pay it but we have to work with them.

Alderman Lopez stated let's take this one by one. Item 1, is that going to come out of the FY06 or FY07 budget?

Mr. Sherman replied I believe the Airport would actually like to pay for theirs out of FY06. EPD and Water I know have both told me that they probably will pay theirs over time.

Alderman Lopez asked and whereby the fund balance for FY06 contingency, you can count that towards...we can use that fund balance when you go up to the DRA right.

Mr. Sherman answered yes. We still have a fund balance.

Alderman Lopez stated if you take this money out of there to pay contingency you won't be able to count that for taxes.

Mr. Sherman responded right but we still have enough. I believe we had \$500,000 in for tax rate setting and we would still have the \$500,000.

Alderman Lopez replied but it would be easier to put \$700,000 towards it.

Mr. Sherman responded you could and then you are just carrying the liability.

Alderman Lopez stated but we are carrying the liability going on FY06 and FY07 for Item 1 and the School District, you don't know whether it is going to be FY06 or FY07 when they are going to pay so explain to me how we are going to do this. Is it just going to be a plan? Is this a plan?

Mr. Sherman replied what the auditors had said last year when they were in front of the Committee was as long as there is a plan to dissolve it they would say not to extend it longer than five years. The would be okay if EPD wanted to pay 20% a year for five years just because that is how their cash flow works. They have all said that they would like to pay it sooner rather than later.

Alderman Lopez asked where does that leave...if they are going to go into FY07 why isn't the general fund going into FY07 then.

Mr. Sherman answered because it is not appropriated in FY07.

Alderman Lopez asked but the contingency can be appropriated.

Mr. Sherman answered yes you could take it out of the FY07 contingency if you prefer.

Alderman Lopez stated secondly why wouldn't we get an answer on Items 1 and 3 before we commit our contingency.

Mr. Sherman responded I am not sure they are really related.

Alderman Lopez replied well it is a plan. If the School Department says no we are not going to give you any money, what are you going to do?

Mr. Sherman stated if they chose not to give you any money you would have to appropriate it within their budget. Keep in mind that they have been saving dollars all along and they are going to save dollars in FY07 from their electric bills. Again, nobody budgeted this 15% rate reduction. They are also going to be getting their refund from the contributory retirement system. It is their choice on how they account for it. Now they will probably...if I was on their side they will probably be picking up a liability at the end of FY06. The question is do they have the funds to pay that liability? It is going to be on everyone's books on June 30. If this plan gets adopted, it will be a liability to every fund on June 30, 2006. The question is how quickly are they going to pay it. Now Airport has said effectively they would like it to just go away in FY06. Don't give me a liability, just take the cash and consider us paid. School may ultimately do the same thing mainly because they weren't planning on getting that receivable from the retirement system but they may say we will give you your \$300,000 once we get the money back from the retirement system. They are all looking at their books at this point trying to figure out which year.

Alderman Lopez responded that is my point. If they decide they will pay in FY08 that is a plan for FY08 for them and we are taking money out of our contingency for 2006. I would rather have an answer to Item 1. If they are going to go FY07 then why shouldn't we go FY07 and they go FY07. I don't know how you can appropriate money in FY07 for the School Department. It would have to be FY08.

Mr. Sherman replied the School Department could pay it from their savings of their electricity.

Alderman Lopez stated I realize that but in working out their budget with them they calculated some change in the rate when they did their budget. I know everybody is thinking they have a lot of money over there but I think they are going through a checklist over there as to what is going to happen. They had some money in FY06 that they funded. My only argument against this is that we all should be on the same page before we commit our contingency for FY06.

Mr. Sherman responded the contingency for FY06 is the general fund share. So everybody is funding their own share. Again, you might have three Enterprises that all choose different time schedules. Airport may say take it out of FY06 and EPD may say FY07 and Water may say I will do it over five years.

Alderman Lopez asked so the auditor didn't say we had to do it in FY06 or FY07 but we can have a plan going into the FY08 budget.

Mr. Sherman answered right and again they said as long as it doesn't drag out over five years that would be okay.

Alderman Lopez stated I don't think there is any necessity to rush this thing myself until we get some answers from the School Department and the Enterprise system.

Alderman Garrity stated I think what is important is that we finally have a plan to do away with this program. This has been kicking around for the five years I have been here and it is extremely frustrating during budget season and things of that nature. It looks like a plan that is fair and divvies up all of the expenses amongst the Enterprises, School and City departments and I would like to move it to the full Board for approval.

Chairman Thibault called for a vote on the motion made by Alderman Forest and duly seconded by Alderman Garrity to accept the Mayor's proposal to eliminate the Aggregation Program.

There being no further business, on motion of Alderman Garrity, duly seconded by Alderman Forest it was voted to adjourn.

A True Record. Attest.

Clerk of Committee